

Goal Three: Foster open, competitive, and financially sound markets.

Total FY 2001 Budget:	\$24,189,000	206 FTEs
Total Increase Over FY 2000:	\$ 2,920,000	19 FTEs

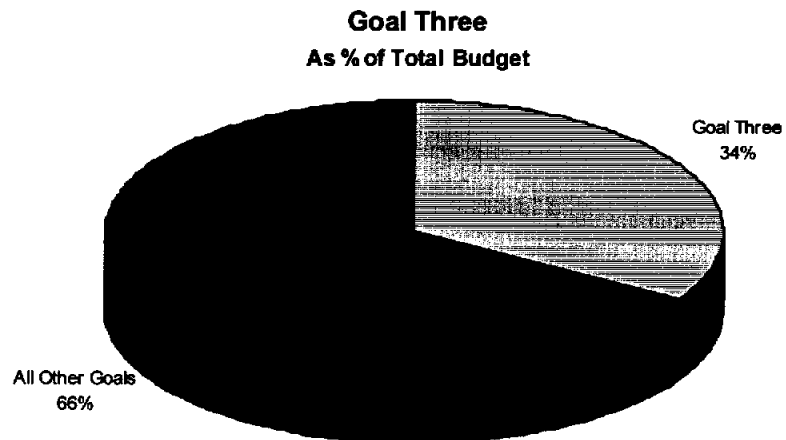


Figure 11: Goal Three – As Percentage of Total Budget

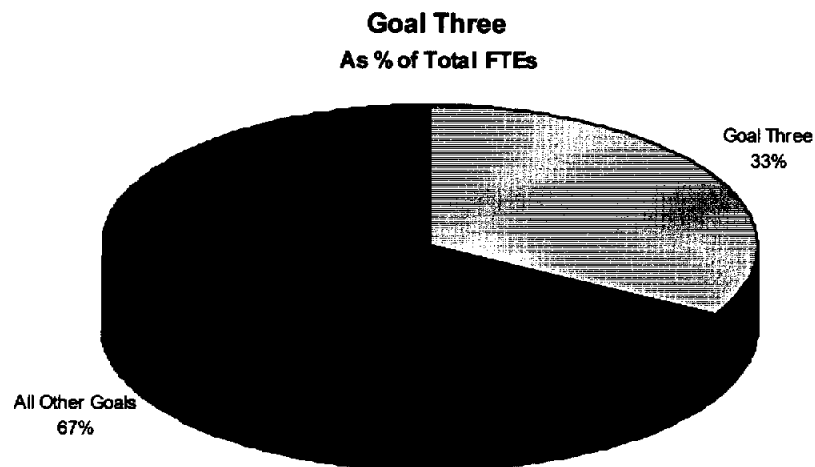


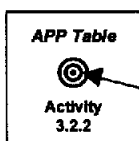
Figure 12: Goal Three – As Percentage of Total FTEs

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Goal Three: Foster open, competitive, and financially sound markets.	
Outcome Objective	Activity
1. Ensure sound financial practices of clearing organizations and firms holding customer funds.	<ol style="list-style-type: none"> 1. Promulgate regulations to ensure sound business, financial, and sales practices in firms participating in the commodities industry. 2. Review and oversee self-regulatory organization audit and financial practices. 3. Identify and investigate possible financial, capitalization, segregation, and supervision violations for investigation and possible prosecution.. 4. Bring cases concerning financial, capitalization, segregation, and supervision violations. 5. Sanction violators.
2. Promote and enhance effective self-regulation of the commodity futures and option markets.	<ol style="list-style-type: none"> 1. Review and approve self-regulatory organization rules and rule amendments. 2. Conduct rule enforcement reviews of self-regulatory organizations (financial practices, sales practices, trade practices, and audit trail). 3. Review and oversee self-regulatory organization audit and financial practices. 4. Review adequacy of self-regulatory organization disciplinary actions. 5. Conduct direct audits of clearing organizations and firms handling customer money to ensure compliance with capitalization and segregation rules. 6. Promulgate regulations to ensure effective self-regulation by exchanges, clearing organizations, and registered futures associations.
3. Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	<ol style="list-style-type: none"> 1. Coordinate and cooperate with global financial services regulators to share vital information concerning markets, intermediaries, and regulatory structure. 2. Coordinate and cooperate with global financial services regulators to develop appropriate global standards and arrangements in the commodities industry as markets emerge and evolve. 3. Participate in the International Organization of Securities Commissions and represent the Commission at international meetings concerning commodity regulation. 4. Participate in the President's Working Group on Financial Markets to ensure coordination of information and efforts among US financial regulators. 5. Provide exemptive, interpretive, or other relief as appropriate to foster the development of innovative transactions, trading systems, and similar arrangements.
4. Promote markets free of trade practice abuses.	<ol style="list-style-type: none"> 1. Identify possible trade practice violations for investigation and possible enforcement proceedings. 2. Investigate possible trade practice violations. 3. Bring cases concerning trade practice violations. 4. Sanction violators.

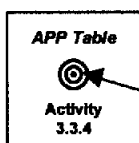
Goal Three: FY 1999 Accomplishments by Program

Market Surveillance, Analysis & Research



Rule Enforcement Review

Surveillance staff participated in rule enforcement reviews of the CSCE. This review analyzed the information systems of each exchange, their surveillance procedures, hedging exemptions and speculative limit enforcement practices, and their ability to deal with market problems that may arise.



Information on the Functions and Utility of the Markets

Market Research staff contributed to the development of a responsive regulatory environment through analyses of swaps, over-the-counter options and instruments which combine the characteristics of securities and derivatives, i.e., hybrid instruments. The Market Research staff also provided significant technical expertise in the Commission's regulatory initiative lifting the ban on agricultural trade options and in evaluating value-at-risk models relating to margining and internal control systems.

In FY 1999, Market Research staff provided expert analysis and testimony in several cases involving potential futures or options-related instruments. Staff also provided economic analysis and input relating to the use of communication media for fraud and other violations of the CEA. Finally, staff members were responsible for several efforts aimed at educating potential futures market participants and regulators and also participated in the risk management education initiative coordinated by the US Department of Agriculture.

Trading & Markets

The Trading and Markets program maintains oversight and direct surveillance programs to assure sound financial practices of clearing organizations and firms holding customer funds; to assure effective self-regulation of the markets; to foster an effective, flexible regulatory environment responsive to evolving market conditions; and to promote markets free of trade practice abuses and other wrongful conduct that may harm customers or the integrity of the markets.



Fostering Sound Financial Practices: Financial Surveillance and Risk Assessment

The Trading and Markets program conducts a financial surveillance and audit program that buttresses periodic audit, daily financial surveillance, and other self-policing programs administered by the exchanges and NFA. The effort includes oversight of financial compliance programs of SROs and direct quality control audits to assess the efficacy of their programs. The oversight and audit of SRO programs are necessary to ensure that SRO member firms are properly capitalized and that customer funds are held in segregation by appropriate custodians and are protected from misappropriation. The staff of the Trading and Markets program also assure that trade practice and financial surveillance are

coordinated to prevent improper trading activities from causing false or distorted reports of financial conditions.

The Trading and Markets program reviews reports filed by registrants (or their accountants) and SROs to identify financial problems and/or internal control inadequacies that could impair the financial or operational viability of firms handling customer funds and to identify violations of Commission requirements. This program also provides information to market users on the financial resources and segregation status of firms as well as guidance to internal and external auditors concerning Commission interpretation of its rules and requirements. The two core objectives of this program are to: 1) prevent loss to customers caused by a firm's failure to adhere to the Commission's financial standards; and 2) prevent loss of ability to transfer customer funds from failing or troubled firms to financially sound transferee firms.

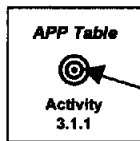
In FY 1999, Griffin Trading Company (Griffin), an FCM, declared bankruptcy after one of its customers traded on a foreign exchange far in excess of his trading limits and then defaulted on his obligations. Griffin, in turn, defaulted on its obligation to its foreign clearing broker, which then seized all available Griffin customer money in its possession. No losses were sustained by customers trading on US markets, whose funds were in US segregated accounts. However, non-defaulting customers whose funds were deposited in foreign accounts were not able to recover funds immediately. The Commission staff are working with the US bankruptcy trustee, foreign liquidator, and foreign regulatory authorities to return remaining funds to Griffin customers as soon as possible.

In FY 1999, activities of the Trading and Markets program in furtherance of fostering sound financial practices by clearing organizations and firms holding customer funds included:

- Reviewing 5,684 financial reports filed by registrants in FY 1999;
- Completing 38 direct audits of FCMs, CPOs, CTAs, and other registrants to test industry self-regulatory programs and to address special issues, including review of compliance in support of the investigations and proceedings of the Enforcement program;
- Processing 204 risk assessment filings;
- Issuing of 313 warning and non-compliance letters based upon audits and review of financial reports;
- Completing follow-up investigations of approximately 161 special required notices reporting such events as reductions of capital by registered firms;
- Preparing a horizontal review of three major exchange programs for audit completion and timeliness of financial report reviews together with a review of staffing;
- Preparing a review of NFA's program for review of CPO and CTA disclosure documents;

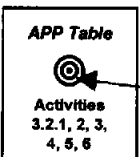
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- Preparing a report on NFA's program for surveillance of telemarketing;
- Advising Chicago-based CME member FCMs that they may file electronic copies of their financial reports, rather than paper copies; and
- Identifying, with the help of SROs, FCMs and CPOs, problems at certain CPOs which may cause risk to individual FCMs or systemic risk to the financial markets.



Promoting Effective Self-Regulation and Markets Free of Trade Practice Abuses

The concept of self-regulation by the exchanges and NFA under Commission oversight is central to the effectiveness of the Commission's regulatory mission. To assure effective self-regulation, the Trading and Markets program oversees the compliance activities of these futures industry SROs. To this end, staff draft regulations governing the operations of exchanges and registered futures associations; consider SRO rule amendments and submissions; and review applications for new exchanges and applications to trade new futures and option contracts. Another key aspect of assuring effective self-regulation is active oversight by the Commission of the SRO's programs to assure compliance by their members with customer and market protection standards. To this end, the Trading and Markets program oversees, reviews, and reports to the Commission concerning statutorily required self-regulatory programs directed to maintaining the financial integrity of the markets and to protecting against trade practice abuses, improper sales practices, and other wrongful conduct. These reviews focus extensively on exchange programs to deter, detect, and impose disciplinary sanctions upon those who commit trade practice abuses, while also addressing other exchange compliance programs. In addition, the Trading and Markets program staff maintain a regular program of trade practice investigations to examine suspicious trading activity, completing 100 such investigations in FY 1999.



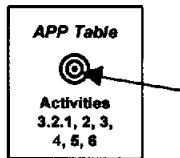
Reports, Rulemakings, and Guidance to Enhance Self-Regulatory Effectiveness

During FY 1999, the Trading and Markets program undertook a number of initiatives designed to streamline SRO programs generally and to increase the overall efficiency of Commission oversight of SRO programs.

- Delegation of Regulation 9.11 to the NFA. The Commission has delegated to NFA certain regulatory responsibilities associated with Commission Regulation 9.11. The Commission has issued an advisory informing the exchanges that they can directly file Regulation 9.11 disciplinary notices with NFA, either electronically or in writing, rather than with the Commission. The Commission has also issued an order delegating to NFA the duty to collect, process and maintain Regulation 9.11 notices submitted by exchanges.
- Year 2000 Preparation. The Commission continued to work towards preparation for the Year 2000 to ensure that its own systems are

Year 2000 compliant. In addition, the Commission worked with the SROs to execute a comprehensive and multifaceted approach to assist the futures industry in achieving Year 2000 compliance. These actions included: 1) sending questionnaires to SROs and registrants; 2) specifying Year 2000 responsibilities for the SROs, registrants and auditors; 3) working with the AICPA to develop agreed-upon procedures to assess programs to ensure Year 2000 readiness; and 4) fostering testing and contingency planning preparations. The Commission has worked closely with the Futures Industry Association (FIA) to achieve industry-wide testing.

- *Maintenance of Customer Funds Overseas or in Foreign Currencies.* The Commission's rules concerning maintenance of customer funds are intended to protect customers from loss in the event that their FCM becomes insolvent. These rules require that such funds be kept segregated from the FCM's own funds. Staff are working on final resolution of proposed rules concerning the conditions under which FCMs may maintain these segregated funds overseas or in foreign currencies. The proposed rules are based on the Commission's current Segregation Interpretation No. 12, a concept release that was issued in December 1997 soliciting comment on proposed revisions to these rules, and the comments received. The proposed rules will specify where such funds may be maintained, in what currencies and other steps that are necessary to enhance flexibility for regulated entities while providing an appropriate level of customer protection.
- *Trading Prohibitions Amendments.* The Commission published proposed amendments to Commission Regulation 1.59, which set forth trading prohibitions on self-regulatory organization employees, governing board members and members of committees on the basis of material nonpublic information. The amendments address technical issues and industry practices that have developed since the regulation originally was promulgated.
- *Expanded Use of Micrographic and Electronic Storage Media.* The Commission adopted amendments to Commission Regulation 1.31, which specifies the length of time registrants are required to maintain certain business records and permits representatives of the Commission and the DOJ to inspect and to obtain copies of the records. The amendments expanded the types of media on which recordkeepers are permitted to store most categories of required records, and do not require recordkeepers to keep originals of most types of records, thereby harmonizing many recordkeeping requirements for firms regulated by both the CFTC and the Securities and Exchange Commission.
- *Revisions of Guidance to SROs in the Execution of Audit and Financial Surveillance Responsibilities.* The staff worked with the SROs to update audit and financial surveillance program standards issued by the Commission. The revised standards adopt modern risk-based auditing approaches, which start each audit with a risk assessment and scope-setting phase. The new approach is expected to result in a more effective use of audit resources by the SROs.



Reviews of Self-Regulatory Compliance Programs

The Trading and Markets program periodically reviews and reports to the Commission on self-regulatory compliance programs. These staff reviews are presented to the Commission in closed briefings, and they also are documented in written public reports. In connection with reviews of trade practice, market surveillance and related SRO compliance programs, staff completed reviews of the COMEX, the Minneapolis Grain Exchange (MGE), the CME, and the Coffee Sugar and Cocoa Exchange.

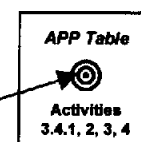
- Trade Practice and Disciplinary Programs of the COMEX. The review found that the COMEX maintains generally adequate programs and set forth some recommendations to improve recordkeeping requirements and the ordering of restitution in appropriate cases.
- MGE Trade Practice Surveillance and Disciplinary Programs. The review found that MGE maintains a generally adequate trade practice surveillance program, but found unduly lengthy delays in completing its own investigations. In light of the finding by Trading and Markets that MGE issued multiple staff reminder and warning letters to repeat rule violators rather than issuing monetary or other sanctions to deter recidivism, staff recommended that MGE establish written guidelines or promulgate rules which would severely limit the number of disciplinary letters that can be issued to members before more severe sanctions are imposed.
- CSCE Market Surveillance, Trade Practice Surveillance, and Disciplinary Programs. The review found that CSCE maintains generally adequate market surveillance, trade practice surveillance and disciplinary programs. The staff made recommendations to improve these programs including: measures to improve the timeliness of market surveillance-related investigations and the documentation of non-member contacts for violations of speculative position limits; expanding the period of time trading activity is reviewed for members suspected of trading violations; considering brokers' profits during the course of investigations of suspected instances of trading violations; and issuing meaningful sanctions in all instances in which findings are supported by the evidence.
- CME Market Surveillance, Audit Trail, Trade Practice Surveillance, and Disciplinary Programs. The review found that CME generally has an adequate market surveillance program, but included recommendations regarding the augmentation of documentation in certain areas and the timeliness of position accountability reviews. The review also found that CME has a generally adequate trade practice surveillance program, but included recommendations regarding the maintenance of an investigation progress log indicating all significant actions and the documentation of monitoring of members conducted as a follow-up to a trade practice investigation. Lastly, Trading and Markets concluded that CME has adequate disciplinary and audit trail programs, but included recommendations regarding members' trading card recordkeeping compliance.

Staff conducted a horizontal review of the self-regulatory programs of the CBT, CME, and NYMEX and found that their programs met CFTC guidelines in the areas of audit completion, timeliness of financial report reviews and staffing. The staff found that each exchange completed audits in accord with Commission guidelines and reviews of financial reports were completed in a timely manner. The levels of staffing and training at each exchange appeared appropriate to meet their oversight responsibilities.

Staff also reviewed the NFA's CPO and CTA disclosure document review program and its telemarketing program and found that NFA's programs were acceptable and in compliance with Commission guidelines in these areas.

Reviews of Compliance with Statutory Directives Concerning Audit Trail and Dual Trading

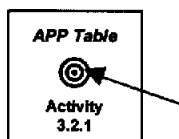
In addition to its periodic reviews of self-regulatory programs, the Trading and Markets program staff also conducted follow-up work concerning SRO compliance with statutory and regulatory requirements regarding audit trail and dual trading to ensure that trade monitoring systems are in place which, to the extent practicable, enable effective detection, deterrence, and prosecution of trading abuses, including those attributable to dual trading, as required by relevant statutory provisions and the Commission regulations. These reviews foster effective self-regulation and prevent trading abuses. Accurate audit trails have been a goal of the Commission since its inception, and the Commission received enhanced statutory authority to require improvements in the 1992 Futures Trading Act. In addressing matters mandated in the Act and recommendations in this area by the GAO, the Commission:



- Completed its analysis of data submitted by CBT and CME in connection with the Commission's November 1997 proposed dual trading orders. It issued proposed orders granting conditional dual trading exemptions to the CBT and CME for affected contract markets, on which each exchange commented orally in hearings before the Commission. The exchanges have continued to submit data on their trade monitoring systems in support of their petitions for unconditional exemptions, and staff continue to evaluate that data.
- Completed an audit trail test of the five affected contract markets at NYMEX. Results are being considered along with other information concerning the effectiveness of the exchange trading monitoring system as part of the determination by the Commission of what action to take regarding the NYMEX pending petition for exemption from the statutory dual trading prohibition.
- In February 1999, issued an order granting CBT's dual trading exemption for the US Treasury bond futures contract traded on its Project A electronic trading system. In June 1999, the Commission amended its order to include the Ten-Year US Treasury note futures contract traded on CBT's Project A.
- Evaluated CME's dual trading petition for the E-Mini and S&P 500 futures contracts traded on its Globex2 electronic trading system and issued a final order granting an unconditional exemption. The

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order focused on the quality of the audit trail for the Globex2 system.



Review of SRO Rule Submissions

The Commission's review of new exchange and NFA rules is a key aspect of the statutory framework for self-regulation under Commission oversight. Staff review SRO rule submissions with a view toward maintaining the fairness and financial integrity of the markets; protecting customers; accommodating and fostering innovation; and increasing efficiency in self-regulation consonant with the Commission's statutory mandates. To these ends, during FY 1999, the Trading and Markets program reviewed 259 SRO rule submissions containing 894 rules.

In many cases, these rule submissions presented complex new trading procedures, market structures, and financial arrangements which raise novel issues and, in some cases, required rule amendments or interpretations by the Commission to facilitate implementation of the SRO rule changes. Some of the more significant SRO rule submissions reviewed during FY 1999 are the following:

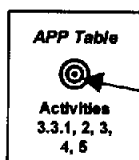
- *FutureCom, Ltd. Application for Contract Market Designation.* Staff continued to review and process an application from FutureCom for designation as a contract market in live cattle futures and options. FutureCom, based in Amarillo, Texas, is a limited partnership owned by the Texas Beef Group, a group of family-owned partnerships involved in the cattle business. It would be the first Internet-based contract market and would be operated on a for-profit basis. In reviewing the application, Commission staff considered issues related to the Internet-based trading and clearing design of the proposed exchange, including system security and vulnerability; the mechanics of the clearing process which is based on an Internet linkage between the exchange and its clearing bank; the use of electronic mail to make margin calls; and other related matters. Commission staff also analyzed the manner in which trade practice surveillance will be performed on the proposed automated system and the adequacy and structure of financial safeguards to support continued operations of the Internet-based system in the event of various levels of member default. Staff conducted a second on-site visit to verify aspects of FutureCom's operations and participated in a mock trading session. FutureCom also obtained an independent third party review of its system. Staff are in the final stage of this review.
- *New York Mercantile Exchange's Exchange of Futures for Swaps (EFS) Program.* Staff reviewed and the Commission approved the NYMEX proposal for EFS transactions. EFS transactions are similar, in several respects, to EFPs, which are expressly permitted by the CEA. Under the terms of the pilot program, EFS transactions will be permitted in any NYMEX division futures contract. The swap component of the transaction must involve the commodity underlying the futures contract (or a derivative, by-product or related product of such commodity) and the quantity covered by the swap must be approximately equivalent to the quantity covered by the futures contract. The swap component must comply with Part 35 of the Commission's regulations. An EFS transaction may be negotiated and

executed non-competitively by the counterparties rather than through open outcry or other competitive means.

- *NYMEX Post-Close Trading Session for Energy Futures Contract to Include the Full Regular Trading Hours Closing Range.* Staff reviewed and allowed into effect, on a pilot basis, NYMEX's proposal widening the trading range during the trading of energy futures in the post-close trading session. The amendment permitted NYMEX energy contracts to trade during the post-close trading session at prices that were within the full range of prices of trades executed during the closing period.
- *Merger of Commodity Futures Clearing Corporation of New York (CFCCNY) and Commodity Clearing Corporation (CCC).* Staff reviewed and approved rules submitted by New York Board of Trade (NYBT) to facilitate the merger of CFCCNY and CCC, the two clearing houses that currently serve the CSCE and the NYCE, respectively. The resulting clearinghouse, which will clear all NYBT contracts, will have the combined resources of both current clearinghouses. The rules for the new clearinghouse will be substantially similar to rules previously approved by the Division.
- *Cantor Financial Futures Exchange.* Staff reviewed and allowed a CFFE proposal to go into effect that permits certain members to have direct computer access to CFFE's automated trading system in lieu of transmitting orders to CFFE-employed terminal operators for entry. Staff also reviewed and the Commission approved a CFFE proposal that enables trading from foreign jurisdictions, including trades placed on terminals located in London.
- *NYMEX Specialist Market Maker Program.* The Division recommended and the Commission approved a NYMEX proposal establishing a generic Specialist Market Maker (SMM) program. The program is intended to enhance liquidity in new or low-volume futures contracts. The SMM will be a NYMEX member, member firm or other qualified entity appointed by NYMEX to act as a market maker in a designated contract market. The SMM will maintain a continuous physical presence on the floor of the Exchange throughout the regular trading session, manage a limit order book and provide a two-sided market in the relevant contracts. The SMM will receive certain exchange funding and be entitled to trading priorities. Recently, the Division deemed approved the program for COMEX's new Aluminum contract.
- *New York Clearing Corporation (NYCC) and Government Securities Clearing Corporation (GSCC) Proprietary Cross-Margining Proposal.* Staff reviewed and allowed into effect a proposal from NYCC to establish a program with GSCC for the proprietary cross-margining of US Treasury futures contracts traded at the Cantor Exchange with cash US Treasury securities cleared through GSCC. The NYCC-GSCC proposal differs from all current cross-margining programs as it does not involve each participating clearing organization possessing a joint perfected security interest and lien in the joint account which holds the cross-margined positions and supporting funds.

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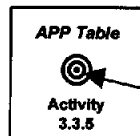
Instead, pursuant to this proprietary-only program, each clearing organization would maintain its own separate account of the proprietary positions and funds subject to the cross-margining program. Each clearing organization calculates the margin savings to the participating clearing members and guarantees the sum of those amounts by the other clearing organization.



Accessing International Markets

Commission staff prepared proposed rules concerning access from within the US to automated trading systems operated by foreign boards of trade, as well as rules to govern automated order routing systems that would be used for the purpose of facilitating the trading of products available through those boards of trade and through automated trading systems of US contract markets. The Commission subsequently withdrew those rules and directed the staff to process no-action requests from foreign boards of trade to permit placement of terminals in the US without contract market designation.

In FY 1999, the Commission amended Rules 30.5 and 30.6. Amended Rule 30.5 permits a foreign person acting in the capacity of an IB, CTA, or CPO who deals with US customers to obtain an exemption from registration in certain circumstances. To obtain a Rule 30.5 exemption, the person must file a petition for exemption with and receive confirmation from NFA. The Commission also amended the disclosure requirements of Rule 30.6 to "level the playing field" between CTAs and CPOs trading domestic products and CTAs and CPOs trading foreign futures and options. Under amended Rule 30.6, CTAs and CPOs must provide similar disclosures to clients or participants regardless of whether these customers are trading on domestic or foreign markets. Amended Rule 30.6 also decreases the amount of disclosure to be provided to sophisticated investors. Pursuant to a Delegation Order issued concurrently with the rule amendments, the Commission authorized NFA to review the disclosure documents filed pursuant to Rule 30.6.



Assuring a Flexible Regulatory Environment

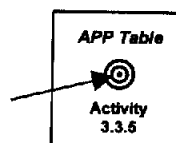
The Trading and Markets program continuously reviews and develops recommended revisions of Commission regulations governing SROs and commodity professionals with a view toward fostering efficiency and competitiveness while assuring customer protection, sound financial practices, and market integrity. Staff also respond to requests for exemptions and other relief from regulatory requirements to address situations in which additional flexibility is warranted and prepare advisories and other guidance concerning the application of Commission regulations. In FY 1999, staff developed amendments to the Commission rules governing the Disclosure Document that CPOs must provide to prospective pool participants. The rule amendments and related NFA rules provide for a two-part Disclosure Document. The first part presents essential disclosures in "plain English" principles. More detailed disclosures are available in the second part of the document. These changes are intended to enhance the disclosure to prospective pool participants.

Exemptive Relief and Guidance to Foster Innovation

During FY 1999, the Trading and Markets program responded to a high volume of formal and informal requests for guidance concerning the application of regulatory requirements to specific transactions, products and market circumstances. Staff issued responses to 230 written requests from members of the public and the regulated industry to provide guidance concerning the application of Commission rules and to provide exemptions. Staff also responded to more than 2,000 telephone inquiries concerning the application of Commission requirements to commodity professionals. These responses aided market participants and the public by providing guidance concerning the manner in which they may conduct their activities to comply with relevant requirements and by granting relief from applicable requirements where application of the rules would not serve the public interest.

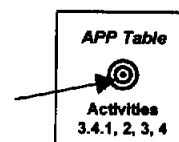
In addition to providing prompt and accurate guidance in response to public inquiries, program staff assisted in affording regulatory flexibility to address market developments. In FY 1999, activity in this area included:

- *Final Rule Regarding Exemptive, No-Action, and Interpretive Letters.*
The Commission adopted a rule to provide guidance to the industry and the public regarding procedures for requests for exemptive, no-action, and interpretative letters from Commission staff. The rule is intended to create a level playing field for regulated entities and members of the public who seek such letters and to increase the ability of Commission staff to respond quickly to incoming requests. Development of this rule followed a study of a three-month sample of such letters issued by the Trading and Markets program.



Enforcement

In order to foster open, competitive, and financially sound markets, the Enforcement program investigates and prosecutes cases involving trade practice abuses, financial, capitalization and segregation violations, and supervision and compliance failures by registrants authorized to handle customer business. The Enforcement program also works on a bilateral basis with foreign regulators and participates in international organizations to encourage the sharing of enforcement information among regulators and to foster adequate enforcement powers for regulators and high regulatory standards for market professionals.



Supervision, Compliance, and Professional Responsibility – Cases Filed

In its efforts to promote sound practices of firms handling customer funds, the Enforcement program investigates and prosecutes registrants' failures to supervise diligently the handling of customer accounts and failures to establish adequate compliance systems to prevent fraud or market abuse. The Enforcement program also addresses failures by public accountants in connection with their audit responsibilities. The matters below illustrate the work of the Enforcement program in this regard during FY 1999:

- *In re Refco, Inc.* In May 1999, the Commission issued an order, simultaneously instituting and settling an administrative proceeding naming Refco, Inc., a registered FCM. The CFTC ordered the com-

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pany to cease and desist from further violations of those provisions of the Act and to pay a total of \$7 million, of which \$6 million will be paid immediately as a civil monetary penalty. The remaining \$1 million will be used to fund a study of issues associated with order transmission and entry procedures for exchange-traded futures and options and the diligent supervision of the order transmission and entry process by commodity professionals. The study, the first of its kind in the futures industry, will be overseen by representatives of the NFA and the Futures Industry Institute (FII), among others. The order also requires Refco to conduct an internal study to review and make recommendations concerning its compliance policies and procedures related to its handling of trades by its trading floor and back office personnel as may be necessary to conform such procedures to the requirements of the Act, the Commission regulations and exchange rules, and to prevent recurrence of the type of conduct discussed in the order.

The order states that the matter arose out of trade allocations by a registered IB and that, from at least January 1995 through December 1995, the IB typically placed orders for thousands of treasury bond futures and options contracts per day for his customers through Refco, and placed a substantial number of such orders without providing account identification to Refco. After the orders were executed, the IB assigned those trades to customer accounts, directing positions as the IB chose, and sometimes moved trades between accounts after trades had been assigned and cleared. The order found that Refco failed to comply with Commission regulations regarding order-taking and recordkeeping in handling customer orders, to administer a proper supervisory system, and to investigate indications of improper handling of trades. Refco consented to issuance of the order without admitting or denying the findings. *In re Refco, Inc.*, CFTC Docket No. 99-12 (CFTC filed May 24, 1999).

- *In re Osadchy*. In October 1998, the Commission entered an order instituting proceedings, making findings, and imposing sanctions on Anatoly Osadchy, also known as Anthony Osadchy. In the order, which accepted an offer of settlement in which Osadchy neither accepted nor denied the findings, the CFTC found that the respondent, a registered certified public accountant, engaged in unprofessional conduct within the meaning of Commission Regulation 14.8(c) in connection with his audit of an IB. Specifically, the order found that Osadchy failed to follow the generally accepted auditing standards (GAAS) by, among other things: failing to maintain adequate training and proficiency as an auditor; failing to educate himself regarding an IB's business even though he had never audited a registrant; failing to employ adequate audit procedures to find potential fraud, errors or irregularities in the financial statements; and failing to maintain his required professional independence by opening an active trading account with the IB. As part of the settlement, the Commission ordered that Osadchy be permanently denied the privilege of practicing or appearing before it and ordered respondent to comply with his undertaking not to apply to the Commission for reinstatement. *In re Osadchy*, CFTC Docket No. 99-2 (CFTC filed October 29, 1998).

- *In re First Options of Chicago, Inc.* In December 1998, the Commission filed a one-count administrative complaint against First Options of Chicago, Inc., a registered FCM. The complaint alleged that the defendant failed to retain and promptly produce the copies and originals of certain floor order tickets requested by the Division in connection with an alleged trade allocation investigation. The complaint alleged that the respondent had to be repeatedly requested to search for the requested order tickets and took fourteen months to complete its search and produce those original tickets it did have. The complaint also charges that the respondent failed to maintain records, including some of the original order tickets and virtually all of the copies of the order tickets. *In re First Options of Chicago, Inc.*, CFTC Docket No. 99-3 (CFTC filed December 22, 1998).

Supervision, Compliance and Professional Responsibility—Other Enforcement Results

The Commission also obtained final results in several other, previously filed cases involving supervision and compliance issues during FY 1999.

- *In re Henry & Horne, PLC*, CFTC Docket No. 98-11, Order Making Findings and Imposing Remedial Sanctions (entered October 21, 1998);
- *In re Kelly*, CFTC Docket No. 97-6, Opinion And Order (CFTC Nov. 19, 1998);
- *In re Reifler Trading Corp., et al.*, CFTC Docket No. 98-2, Order Making Findings and Imposing Sanctions against Respondents Reifler Trading Corp. and Bradley C. Reifler (entered January 22, 1999); and
- *In re Reifler Trading Corp., et al.*, CFTC Docket No. 98-2, Default Judgment (as to Respondents Hany Labib, Syed Hussain, and Liberty Futures, Inc.), (CFTC entered May 28, 1999).

International Cooperation in the Enforcement Program

In order to facilitate the continued development of an effective, flexible regulatory environment which is responsive to evolving market conditions, the Enforcement program cooperates with financial regulators from around the globe on a bilateral basis and through international organizations. By establishing arrangements to share enforcement information, regulators deter wrongdoing across borders. Working together, regulators also encourage the implementation of enforcement powers adequate to address misconduct in futures and option markets. Among the activities of the Enforcement program in support of this goal are the following:

- *Portugal MOU*. On February 4, 1999, the Commission signed an MOU concerning consultation and cooperation in the administration and enforcement of futures laws with the Comissão do Mercado de Valores Mobiliários (CMVM), the Portuguese federal securities and futures regulator. The MOU provides a framework for the exchange of assistance between the authorities to the fullest extent permitted by US and Portuguese law. The assistance includes providing access

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to information in Commission and CMVM files, taking statements, obtaining information and documents, and conducting inspections or examinations of futures contracts, futures businesses, and futures processing businesses.

- *IOSCO Technical Committee Working Parties.* The Commission has been closely involved in the work of the IOSCO Technical Committee working parties, specifically, the Working Party on Regulation of Secondary Markets (WP2), the Working Party on Market Intermediaries (WP3), and the Working Party on Enforcement and the Exchange of Information (WP4). The Commission has contributed to WP4's work concerning cooperation between law enforcement and regulatory authorities, and approaches to the detection, investigation, and prosecution of price manipulation. The CFTC was invited to the meeting to discuss its approach to the prevention and detection of manipulation. Commission staff also proposed and formulated mandates on joint investigations for future consideration by WP4.
- *G-7 Financial Crimes Working Group.* At the June 1997 Denver Economic Summit, the heads of state and government of the Group of Seven Industrialized Nations (G-7) issued a statement calling for improved international cooperation between law enforcement authorities and financial regulators. In response to this mandate, the G-7 Finance Ministers formed the Working Group on Financial Crime charged with identifying obstacles to cooperation and information-sharing across regulatory and enforcement lines and developing recommendations for overcoming the obstacles. The Commission, as a participant in the working group, along with the US Treasury Department, the US Securities and Exchange Commission, and several US banking regulators, lent advice and expertise to this initiative. The work of the group resulted in the development of key elements for effective cooperation between law enforcement authorities and financial regulators. In FY 1999, Commission staff continued to work with the other US members of the working group to finalize language for the key elements of cooperation.
- *Money Laundering Working Group & Financial Action Task Force.* The Commission also participates in the Money Laundering Working Group (MLWG), a forum for discussing money laundering issues among relevant US governmental agencies. The MLWG is chaired by the US Treasury Department and the DOJ and is attended by US banking, securities, and futures regulators and state and federal law enforcement agencies. The MLWG discusses money laundering issues affecting the financial sector and legal developments relating to the detection, investigation, and prosecution of the offense. Participants also comment on international anti-money laundering initiatives undertaken by the Financial Action Task Force (FATF).

FATF is an international organization, presently comprised of over 25 countries, created by the G-7 to formulate recommendations for combating money laundering. During the fiscal year, the Commission commented on an FATF project concerning feedback to financial institutions that report suspicious financial activity to governmental authorities on either a voluntary or mandatory basis. In ad-

dition, the Commission reviewed a US government update to FATF regarding the reporting and record keeping requirements applicable to US financial institutions and US compliance with FATF recommendations.

- Wilton Park Conference. In May 1999, the Division attended the Wilton Park Conference, an annual international gathering of futures and securities regulators to discuss enforcement issues hosted by the Financial Services Authority in the United Kingdom. This year, the conference focused on legal challenges to international enforcement cooperation, freedom of information, and measuring effectiveness and accountability in enforcement action.
- Swiss Commodities Futures and Options Association Roundtable. In May, the Division participated in the Swiss Commodities Futures and Options Association Roundtable for Swiss and Luxembourgian magistrates. The roundtable focused on investigation and case development issues related to boiler room activities.

Office of Proceedings

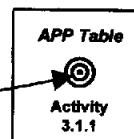
Cases involving financial, capitalization, segregation, and trade practice abuse violations are among the most complex and resource intensive matters assigned to the ALJs. These cases often involve lengthy hearings and voluminous records. In FY 1999, one case was decided by an ALJ which involved trade practice abuse violations. The ALJ determined that the Commission proved a pattern of fraud by respondents, who on three different markets—the COMEX, the NYMEX, and the CSCE—engaged in illegal, non-competitive practices by participating in buckets, illegal offsets, illegal three party trades, money passes, and other non-competitive practices in violation of the Act and CFTC regulations. Proof was substantiated by an audit trail and confirmed by expert witnesses.

The ALJ issued against respondents cease and desist orders from violations of the CEA, ordered monetary fines, banned the respondents for various trading periods, and revoked all of their registrations after he determined that they had each been involved in fraudulent activity in the form of non-competitive practices with respect to futures trades. This matter is currently on appeal.

Office of the General Counsel

Promulgating Regulations to Ensure Sound Business, Financial, and Sales Practices

The Office of the General Counsel reviewed all proposed and final Commission rules and rule amendments to assure their legal sufficiency and conformance with the CEA and Commission policy and precedent. Issues considered included proposed or final rules addressing record-keeping requirements, large trader reporting, speculative position limits, block trading, the streamlining of Commission rule review procedures and the contract market designation process, amendments to Part 30 of

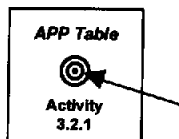


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the regulations, electronic trading, the placement of foreign terminals in the US, public interest requirements and fees for contract market designation, post-execution allocation of orders, conflicts of interest, futures-style margining of options, revisions of procedures governing bunched orders and no-action relief, and expanded early warning requirements. The Office of the General Counsel also reviewed concept releases on off-shore funds and performance data, proposed rules for the placement of foreign terminals in the US, and disclosure requirements for CTAs and CPOs.

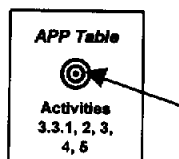
Financial, Capitalization, Segregation and Supervision Violations

In FY 1999, the Office of the General Counsel reviewed 16 proposed enforcement actions involving the investigation, prosecution, and sanctioning of violators of financial, capitalization, segregation, and supervision requirements to assure their legal sufficiency and their conformance with the requirements of the Act and general Commission policy and precedent. An important case reviewed by the staff was *In re Refco, Inc.*, No. 99-12 (CFTC May 24, 1999), in which the Commission charged Refco, Inc. (Refco), an FCM, with, *inter alia*, failing to administer a proper supervisory system and failing to investigate indications of improper trading. As a result of the complaint, Refco agreed to pay a \$6 million civil penalty and to fund a \$1 million study of issues associated with order transmission and entry procedures and the diligent supervision of such procedures.



Promoting Effective Self-Regulation

The Office of the General Counsel reviewed all proposed SRO rules and rule amendments for legal sufficiency and conformance with general Commission policy and precedent, and approximately 90 exchange rule amendments for existing futures and options contracts to assure legal sufficiency and conformance with the CEA and Commission policy and precedent.



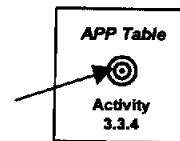
Facilitating a Flexible Regulatory Environment

During FY 1999, the Office of the General Counsel provided direct support to Commission efforts to coordinate and cooperate with global financial services regulators, to share vital information and to develop appropriate global standards. The staff prepared and reviewed numerous interpretive letters and Commission orders, including no-action letters for foreign stock indices. The Office of the General Counsel worked closely with the Commission to establish information-sharing agreements with foreign financial market regulators and in activities involving the IOSCO and the Tokyo conference.

The Office of the General Counsel also assisted the Commission in analyzing a substantial number of requests for exemptions from various requirements of the CEA and Commission regulations, including the petition of the London Clearing House Limited for Section 4(c) relief for its newly developed swaps clearing operation.

Coordination of Information and Efforts Among US Regulators

The Office of the General Counsel provided support to Commission representatives participating in the President's Working Group on Financial Markets during FY 1999. Issues considered by the working group included risk assessment, capital requirements, internal controls, disclosure, market practices relating to trading in derivative instruments, bankruptcy law revisions, and contingency planning for market emergencies. In April 1999, the working group transmitted to Congress a report on hedge funds prepared in the wake of the near collapse of Long Term Capital Management. The report contains a set of recommendations designed to constrain leverage and enhance private sector risk management practices. On November 9, 1999, the working group submitted to Congress a report on issues related to over-the-counter derivative transactions. The report addressed the legal uncertainty that has existed in the United States with respect to the over-the-counter markets and the danger that continued uncertainty may discourage innovation and growth and drive transactions off-shore. The report recommended amendments to the Commodity Exchange Act designed to provide legal certainty in this area, to remove impediments to innovation, to reduce systemic risk by removing legal obstacles to the development of appropriately regulated clearing systems, to protect retail customers from unfair practices by providing the Commission with clear authority to address problems arising out of foreign currency bucket shops, and to maintain US leadership in these rapidly developing markets.



Administrative Matters

Throughout FY 1999, the Office of the General Counsel also devoted resources to monitoring and commenting on government-wide legislation affecting the Commission, proposed legislation, especially legislation that would affect or amend the Act, and assisting the Commission in responding to Congressional inquiries.

In fulfilling its responsibility to handle all third-party subpoenas issued to the Commission seeking documents or testimony, the Office of the General Counsel advised the Commission as to whether the information requested was privileged or otherwise protected and represented the Commission in any resulting litigation. During FY 1999, the Office of the General Counsel handled approximately 10 third-party subpoenas.

Throughout FY 1999, the Office of the General Counsel also advised the Commission with respect to issues relating to the Freedom of Information, Privacy, Government in the Sunshine, Regulatory Flexibility, Paperwork Reduction, and Federal Advisory Committee Acts.

The Office of the General Counsel also provided support during FY 1999 with respect to all matters relating to the Commission's ethics standards and compliance with its Code of Conduct, as well as with government-wide ethics regulations promulgated by the Office of Government Ethics, including the requirement of annual ethics training for Commission employees.

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During FY 1999, the Office of the General Counsel also advised the Commission on personnel and labor and employment law matters. In conjunction with the Office of Human Resources and Support Services, the Office of the General Counsel assisted the Commission in resolving Equal Employment Opportunity cases arising under Title VII of the Civil Rights Act of 1964, and Merit Systems Protection Board cases arising under the Civil Service Reform Act of 1978. During FY 1999, the Office of the General Counsel also assisted the Commission in conducting sexual harassment training for Commission personnel.

Throughout FY 1999, the Office of the General Counsel supported the Commission during its reauthorization efforts before Congress. The staff monitored industry and Congressional proposals related to the Commission's reauthorization, attended Congressional roundtable discussions and hearings, assisted the Commission in preparing testimony, and otherwise responded to the Commission's reauthorization.

Executive Direction & Support

Agency Direction

OIA assisted the Commission in its formulation of international policy by providing information and technical support on international matters and coordinating the Commission's varied international activities; providing information to the Commission concerning foreign regulatory systems and analyzing foreign regulatory developments; assisting other Commission offices in international matters by reviewing proposed actions upon request; obtaining information from foreign sources; providing information to foreign regulators; supporting the participation of the Commission in international organizations and meetings; coordinating requests for technical assistance and organizing the annual training seminar for foreign regulators offered by the Commission. In FY 1999, OIA contributed to this effort through the following activities:

- Completed a survey of selected global jurisdictions to determine the state of regulation of over-the-counter derivatives. The survey, *Regulation of Over-the-Counter Derivatives Transactions (1999)*, examined the regulatory regimes in 16 jurisdictions across Europe, Asia and North and South America. The survey was undertaken to support the Commission's inquiries into the OTC markets and was intended to serve as a resource to make existing requirements more accessible and to facilitate further study of the treatment of OTC derivatives. Copies of the report were provided to the President's Working Group and to members of the Technical Committee of IOSCO and posted on the Commission's Web site.
- Published the *Exchange-Traded Derivatives in Developing Capital Markets Report*, containing responses to a template sent in 1998 to certain jurisdictions with developing capital markets. The Report reviews broadly regulatory practices as described by the participating jurisdictions and is posted on the Commission's Web site.
- Completed a survey called *Futures Exchange and Contract Authorization Standards and Procedures in Selected Countries* (August 1999). The report summarizes the standards and procedures in selected

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countries regarding exchange authorization procedures, rules amendment, the admission of contracts to trading on an exchange, and the amendment of existing contracts. The survey is posted on the Commission's Web site.

- Worked on the development of a Memorandum of Understanding with relevant United Kingdom market authorities that will facilitate the sharing of warehouse information. A draft MOU was submitted to the relevant UK authority for consideration.
- Coordinated Commission activities within the IOSCO and its Technical Committee. With respect to the Technical Committee, OIA staff have represented the Commission on the IOSCO Technical Committee's Hedge Fund Task Force, which is considering recommendations that would strengthen risk management processes, improve information flows and identify areas where it may be advisable to cooperate with other interested international organizations such as the Basle Banking Committee. OIA staff also are actively engaged in the IOSCO Task Force on the implementation of the IOSCO report *Objectives and Principles of Securities Regulation (Core Principles)* that was adopted last year as a statement of international "best practices." OIA staff have been participating in drafting groups that are preparing surveys for a high level self assessment on the extent to which the Core Principles have been implemented.
- In addition, OIA coordinated the Commission's activities within the IOSCO working group on secondary markets. During the year, OIA staff have taken a lead role in developing the working party's survey on the regulation of electronic trading systems, which is intended to provide information leading to possible revision of the 1990 Principles for the Oversight of Screen Based Trading Systems. OIA staff similarly took a lead role in drafting the working party's report to the Technical Committee's Hedge Fund Task Force. OIA staff actively encouraged the working party to consider the impact of hedge fund trading from an organized market's perspective.
- Organized the annual meeting for international regulators that took place during the FIA conference in Boca Raton, Florida, in March 1999. Forty-one representatives from 27 foreign agencies attended the meeting at which issues related to OTC derivatives, electronic trading, Year 2000 and market conduct rules were discussed.
- Provided technical assistance and information to the Commission's Global Markets Advisory Committee which is examining issues related to the competitiveness of the US futures industry.
- Upon request from various international financial regulators OIA has provided information on the Commission's programs and commented on various reports. For example, comments were provided to: the International Monetary Fund regarding a transparency review, the World Bank, International Finance Corporation, and regional development banks regarding training initiatives, and to the World Trade Organization (WTO) regarding its review of financial services markets.

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- Provided comment to the US SEC regarding its participation in the Financial Stability Forum;
- Coordinated the Commission's response to the work of the US Treasury Department with the G-7 and G-22 countries on strengthening the world's financial architecture, including its participation in the Financial Stability Forum.

The Commission often acts as an intermediary with foreign regulators when fitness information is requested by the NFA. While the Commission has authorized the NFA to contact foreign regulators directly for fitness information, some foreign regulators prefer that requests come directly from the Commission. In FY 1999, OIA made 136 requests to foreign regulators for fitness information on behalf of the NFA. In addition, OIA responded to over 65 requests from foreign regulators for fitness information.

In FY 1999, OIA made over 51 requests to foreign regulators for regulatory information and responded to over 102 requests from foreign authorities for regulatory information. These included requests made to foreign regulators for information concerning the regulation of OTC derivatives transactions and providing information regarding various aspects of the Commission's regulatory structure to foreign regulators.

Each year the Commission provides technical assistance to foreign regulators through meetings with staff and a week-long seminar that examines the techniques used to promote market, firm, and customer protections. Sharing this information enhances the knowledge of other regulators and facilitates the development of high levels of global regulatory protections. In FY 1999, the seminar was attended by 85 persons representing 53 regulators or SROs from 30 different jurisdictions. In addition, OIA staff arranged in-house regulatory visits for 25 foreign delegations.

Administrative Management & Support

In FY 1999, OIRM completed development of modifications to the software that enables registrants to electronically submit financial condition statements (Form 1 FR) to the Commission and expanded the scope of analytic software used to review those statements. OIRM began the migration of the Financial Surveillance Information System from the soon to be decommissioned mainframe. OIRM helped review proposals for automated trading systems and the status of existing automated trading systems, and reviewed and suggested modifications to proposed rules for back office records. OIRM provided support for the Commission's industry Year 2000 readiness program.

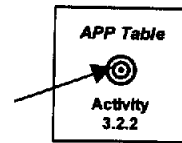
The requirements analysis for the replacement for the Exchange Database System included analysis of ways to facilitate greater flexibility in response to evolving market conditions and to better support efforts to promote markets free of trade practice abuses.

Goal Three: FY 2000 and FY 2001 Plan by Program

Market Surveillance, Analysis & Research

Rule Enforcement Review

The staff of the Market Surveillance, Analysis, and Research program will assist Trading and Markets program staff in conducting four rule enforcement reviews of exchange market surveillance programs in FY 2000 and four in FY 2001.



Information on the Functions and Utility of the Markets

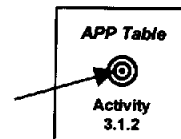
During FY 2000 and FY 2001, Market Research staff will continue to provide analytic support and expertise for enforcement cases involving questionable trade practices or trading abuses. Resources also will be devoted to analysis of the competitive implications of exchange and over-the-counter derivative market developments.



Trading & Markets

Fostering Sound Financial Practices: Financial Surveillance and Risk Assessment

In FY 2000 and FY 2001, the Trading and Markets program will maintain and continually improve its ongoing programs to ensure sound financial practices, effective self-regulatory programs, a flexible regulatory framework which remains responsive to market developments, and markets free of abusive trade practices and other wrongful conduct. These programs will face increased demands due to the growing complexity of market structures and product innovations in an increasingly global marketplace. These developments require enhanced oversight activity to ensure adequate financial protections and the review of regulatory requirements to accommodate innovation without loss of regulatory protections. Currently contemplated enhancements include regulatory amendments to implement recommendations of the President's Working Group report on hedge funds.

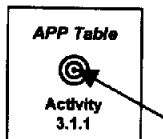


During FY 2000 and FY 2001, the Trading and Markets program will continue to perform reviews of the self-regulatory organizations' financial surveillance programs, and will, each year conduct direct audits of 60 to 65 registrants, process approximately 175 risk assessment filings by FCMs, and review 5,000 to 6,000 financial reports from FCMs, IBs, and commodity pools. The staff also anticipates making referrals to SROs and to the Enforcement program, conducting financial investigative reviews, issuing warning and noncompliance letters, reviewing notices of reduction in capital and issuing appropriate exemptive relief, and providing support to the Enforcement program on accounting matters and the application of financial requirements.

The Trading and Markets program will also provide informal guidance to registrants, SROs, certified public accountants and other interested persons on matters of compliance with the financial segregation, disclosure, recordkeeping, and reporting requirements. In light of expected

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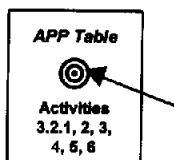
market trends and in order to continue to achieve the goal of ensuring appropriate disclosure to futures and option customers, the staff will undertake improvements to risk assessment oversight of FCMs and commodity pools and to further enhance the transparency of each firm's risk appetite, risk management practice, and actual risk measures.



Promoting Effective Self-Regulation and Protecting Markets from Abusive Trade Practices

The Trading and Markets program staff will conduct seven rule enforcement reviews of SRO compliance activities in FY 2000 and FY 2001 to ensure that each SRO program is conducted effectively. In each of FY 2000 and FY 2001, staff expects to review approximately 440 SRO rule and rule amendment submissions containing approximately 680 rules to ensure the protection of customers, the financial integrity of firms, and the fair treatment of market participants, while accommodating product innovations and fostering efficiency. Areas of possible activity include exchange mergers, links with over-the-counter markets and foreign exchanges, common clearing and other clearing organization restructuring, and automated trading systems.

With respect to deterring and detecting abusive trade practices, the Trading and Markets program will continue its regular program of trade practice investigation, including more than 100 such investigations in each of FY 2000 and FY 2001. Staff will refer cases to the Enforcement program and the exchanges as appropriate. Staff will also continue development and implementation of enhancements to the automated trade surveillance system at the Commission.



Reports, Rulemakings and Guidance to Enhance Self-Regulatory Effectiveness and to Ensure a Flexible Regulatory Environment

The Trading and Markets program will continue to promote enhancements in self-regulatory effectiveness and to ensure a flexible regulatory environment which can accommodate the profound changes now occurring in the marketplace. These changes are driven largely by the expanding use of computer and communication technology and will affect, among other things, how markets are accessed by participants therein and how intermediaries do business with customers. The character of the markets also will change as the use of electronic trading systems continues to grow and as cross-border transactions become easier and more common.

Congress will soon consider the reauthorization of the Commission. Some Congressional leaders have announced that this may involve a comprehensive re-evaluation and modification of the CEA and Commission regulations. The Trading and Markets program staff anticipates that it will be involved in a substantial number of projects during and as a result of this process. In addition, the current movement by the Commission to an increased reliance on oversight activity is likely to add to the responsibilities of the Trading and Markets program in this area.

With the assistance of outside consultants, the Trading and Markets staff will continue to develop and begin to implement an enhanced electronic trade data base and surveillance system. Staff also will be

developing new approaches to trade surveillance that specifically are tailored to the manner in which trading occurs through electronic systems.

The Trading and Markets program staff will review Commission rules and evaluate the effectiveness thereof as products and markets continue to evolve. The staff will, as necessary, develop and promulgate regulations and promote standards which provide appropriate guidance to market participants but continue to allow sufficient flexibility. The staff currently expects to develop proposals and final rules in connection with the following issues: 1) refining the definition of Qualified Eligible Participants, CPOs and principals; 2) delineating the circumstance under which certain foreign brokers may directly receive orders from foreign futures and options without registering with the Commission; and 3) memorializing certain interpretative and no-action letters addressing when foreign brokers must register with the Commission or obtain an exemption from such registration.

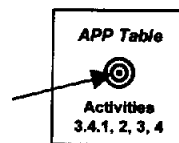
The Trading and Markets program also will review and recommend appropriate revisions of the capital rules for FCMs and IBs so that such firms, the exchanges and the clearing organizations can enhance their operating efficiency while maintaining a sufficient capital cushion. Staff will continue to provide guidance and relief, as appropriate, to the public, persons new to the futures industry and market professionals on a wide range of basic compliance matters such as registration, disclosure, recordkeeping, and treatment of customer funds.

The Trading and Markets program also will review no-action requests from foreign boards of trade seeking to place terminals in the US without being designated as a contract market. In addition, the program will review and monitor innovative trading mechanisms developed by the electric utility industry, in response to the deregulation of that industry, particularly those existing in an off-exchange environment.

Enforcement

The Enforcement program anticipates a slight increase in the level of resources it will devote to its role in fostering open, competitive and financially sound markets through investigations and prosecutions relating to financial, supervision, and compliance failures by firms handling customer funds and trade practice abuses by market participants.

The Enforcement program anticipates that its investigation and prosecution of significant supervision, compliance and internal controls failures will grow as trading volume grows and regulated firms compete aggressively for customers in a changing regulatory and technological environment. Such violations threaten the financial integrity of registered firms holding customer funds and can, if large enough, threaten the financial integrity of clearing organizations. In addition, without adequate supervision and compliance systems in place, customers remain vulnerable to fraud including misallocation of trades and unauthorized trading. Diligent supervision by registered firms also protects markets from the abusive practices of traders, including wash sales and manipulation. Such cases tend to be complex and time consuming, re-



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quiring substantial testimony from all employees and managers in the supervisory chain. These cases often result in substantial remedial changes in the supervisory structures and systems in large FCMs following comprehensive reviews by the firms pursuant to Commission orders. These cases have had a substantial impact on the way firms do business and are an important part of the responsibility of the Commission to promote sound practices by registered firms.

An example of both the level of complexity of these cases as well as the impact bringing them can have on a given firm—and on the industry in general—can be found in the case *In re Refco, Inc.*, CFTC Docket No. 99-12 (CFTC filed May 24, 1999). In *Refco*, the Commission issued an order simultaneously instituting and settling an administrative proceeding naming Refco, Inc., a registered FCM. The matter arose out of trade allocations by a registered IB who, the Commission alleged, daily placed orders for thousands of US Treasury bond futures and options contracts through Refco. The IB placed a significant number of the orders without providing account identification to Refco. Underlying this case was the Enforcement staff's analysis of over 8,000 floor order tickets for indicia of trades placed and accepted without account designation.

The Commission's order included findings—neither admitted nor denied by Refco—that the company failed to comply with Commission regulations regarding order-taking and record keeping in handling customer orders; failed to administer a proper supervisory system; and failed to investigate indications of improper handling of trades. Among other sanctions, the Commission ordered Refco to pay \$7 million, of which \$6 million was payable as a civil money penalty and \$1 million of which will be used to fund a study, the first of its kind, to make recommendations for best practices concerning issues associated with order transmission and entry procedures for exchange-traded futures and options. The civil monetary penalty was among the largest ever assessed by the Commission and sends an unmistakable deterrent message. The Commission is also confident that the study, financed by Refco's settlement, should have a far-reaching effect on how the industry does business.

The Enforcement program staff will continue, in the first instance, to rely on self-regulatory organizations and independent auditors to monitor compliance and supervision by registered firms. When appropriate, however, Enforcement program staff will undertake aggressive investigations and prosecutions to remedy failures in this area.

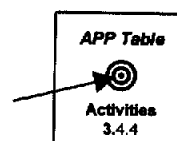
The Enforcement program staff will continue to prosecute trade practice violations in appropriate cases. Even with regulatory changes to facilitate trading by institutional customers, the Commission continues to be responsible for fostering markets that are free of fraudulent trading practices. This requires a strong enforcement presence in this area. Exchanges play an important role in fostering open, competitive markets through surveillance and disciplinary actions. With technological improvements and enhanced audit trails, the Enforcement program staff do not expect the number of Commission enforcement actions in this area to increase. Nevertheless, given the importance of maintaining markets free of abusive trading practices, program staff must be prepared to act when necessary. Such investigations tend to be among the most complex and time-consuming matters undertaken by program staff

and will require the commitment of substantial resources for the foreseeable future.

Internationally, the Enforcement program will continue to negotiate cooperative enforcement arrangements as foreign authorities obtain enhanced regulatory and enforcement powers and become full partners in investigating and prosecuting futures and option violations. During FY 1999, the Commission signed a memorandum of understanding concerning consultation and cooperation in the administration and enforcement of futures laws with the Comissão do Mercado de Valores Mobiliários, the Portuguese federal securities and futures regulator. Other such arrangements are currently being negotiated with authorities in Europe and Asia. These arrangements have been critical to the investigation and prosecution of cases involving fraud and manipulation. The Enforcement program will continue to pursue opportunities to enter into such arrangements in the future and will also participate in international organizations which encourage the development of high regulatory standards and cooperative enforcement. Such organizations have had a significant effect on lowering the barriers to sharing information between futures regulators and encouraging foreign jurisdictions to empower their regulators to enforce futures and option laws.

Office of Proceedings

The Office of Proceedings will continue to hear and decide enforcement cases brought by the Commission against persons or firms charged with violating the Act or Commission rules and regulations.



Office of the General Counsel

Promulgating Regulations to Ensure Sound Business, Financial, and Sales Practices

The Office of the General Counsel will continue to review all proposed and final Commission rules and rule amendments to assure their legal sufficiency and conformance with the CEA and Commission policy and precedent.

Financial, Capitalization, Segregation and Supervision Violations

The Office of the General Counsel will continue to review all proposed enforcement actions involving the investigation, prosecution, and sanctioning of violators of financial, capitalization, segregation, and supervision requirements to assure their legal sufficiency and conformance with the requirements of the CEA and Commission policy and precedent.

Promoting Effective Self-Regulation

The Office of the General Counsel will continue to review all proposed SRO rules and rule amendments for legal sufficiency and conformance with general commission policy and precedent.

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Facilitating a Flexible Regulatory Environment

The Office of the General Counsel will continue to provide support to Commission efforts to coordinate and cooperate with global financial service regulators, to share vital information, and to develop appropriate global standards. It will also assist the Commission in promoting a flexible regulatory environment by analyzing requests for exemptions from the CEA and Commission regulations and by preparing and reviewing exemptive, no-action and interpretive letters.

Coordination of Information and Efforts among US Regulators

The Office of the General Counsel will continue to provide support to Commission representatives participating in the President's Working Group on Financial Markets.

Administrative Matters

The Office of the General Counsel will continue to advise the Commission with respect to a wide range of administrative matters. Ongoing responsibilities will include supporting the Commission during its reauthorization efforts before Congress; monitoring and commenting on proposed government-wide legislation affecting the Commission; assisting the Commission in responding to Congressional inquiries; advising the Commission with respect to issues involving the Freedom of Information, Privacy, Government in the Sunshine, Regulatory Flexibility, Paperwork Reduction, and Federal Advisory Committee Acts; assisting the Commission in responding to third-party subpoenas; providing support with respect to ethics issues; and advising the Commission on personnel and labor and employment law matters.

Executive Direction & Support

Agency Direction

In FY 2000 and FY 2001, OIA will continue to cooperate with global financial services regulators to share information concerning markets, intermediaries, and regulatory structures and to develop appropriate standards and arrangements in the commodities industry. Also, in FY 2000 and FY 2001, OIA will continue to participate in IOSCO, the Council of Securities Regulators of the Americas (COSRA), and other international organizations to develop internationally accepted standards for the regulation of markets and financial services firms. During FY 2000, OIA will continue to contribute to the Commission's participation in a special IOSCO Task Force that will address regulatory issues raised by hedge funds and other large market participants; participate in an IOSCO working party study of screen-trading systems; participate in the IOSCO task force implementing the IOSCO Objectives and Principles of Derivatives Regulation; and continue developing an information-sharing arrangement with UK market authorities to facilitate the sharing of information on warehouses used to store commodities that can be delivered on futures contracts traded in either of the two countries. OIA also will continue to provide technical support to the work US Treasury Department's increasing transparency of markets and strengthening the global markets' financial architecture. In both fiscal years, OIA will

continue to provide technical assistance to foreign market authorities and to GMAC of the Commission.

Administrative Management & Support

In FY 2000, OIRM will complete the transfer of the Financial Surveillance Information System from CFTC's mainframe computer, which will be decommissioned in accordance with an OMB directive. OIRM will support review of existing and new automated trading systems and imputed trade timing systems. In early 2000, OIRM will assist in the review of industry Year 2000 preparations and remediation efforts. The development of the replacement for the Exchange Database System will be structured to provide greater flexibility to respond to evolving market conditions and include improved capabilities to promote markets free of trade practice abuses. In FY 2001, OIRM will continue work on replacement of the Exchange Database System and support for reviews of industry efforts relating to automated systems.

Working Relationships in Support of Goal Three

Presidential Working Group on Financial Markets

Coordinated initiatives concerning risk assessment, capital requirements, internal controls, disclosure, accounting, market practices relating to derivative instruments, hedge funds, bankruptcy law revisions, and contingency planning for market emergencies.

Foreign Market Authorities & Exchange

Technical assistance and promotion of international regulatory standards by allowing other regulators to benefit from the Commission's vast experience.

Educational Forums

Discussions of the CEA, Commission rules, pending rule changes, and market developments at conferences sponsored by the Practicing Law Institute, the AICPA, the SIA, Chicago-Kent College of Law, IOSCO, the Managed Funds Association, and the FIA.

Financial Products Advisory Committee

A channel for communicating with the diverse financial community to obtain advice and recommendation on issues related to financial markets including issues such as futures-style margining of options, bunched order allocation, notional funds, non-competitive transactions, and Y2K issues.

Global Market Advisory Committee

A means for obtaining input on international market issues that affect the integrity and competitiveness of US markets and firms engaged in global business especially with regard to the regulatory challenges of a global marketplace including avoiding unnecessary regulatory or operational impediments faced by those doing global business and the placement of electronic terminals of foreign exchanges in the US.

Memoranda of Understanding/International Arrangements

Cooperation with foreign regulatory and enforcement authorities through MOUs and other arrangements: 18 formal cooperative enforcement arrangements, four arrangements relating to financial information sharing, and nine cooperative arrangements for sharing information on matters related to the implementation of the Commission's Part 30 regulations, which grant foreign firms an exemption from certain Commission rules.

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International Organization of Securities Commissions (IOSCO)

Provides vehicle for exchanging information and expertise among regulatory authorities for the supervision of world securities and derivatives markets, to establish standards of best practices, to ensure market integrity, and to promote effective supervision. Work conducted through working parties specialize in issues related to multinational disclosure and accounting, the regulation of secondary markets, the regulation of market intermediaries, and investment management.

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Table 5: Goal Three – Summary of Request by Program

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Market Surveillance, Analysis, & Research	\$450	5.00	\$485	5.00	\$35	0.00
Trading & Markets	11,206	99.50	12,945	112.00	1,739	12.50
Enforcement	2,838	23.97	3,382	28.22	544	4.25
Proceedings	206	1.91	224	2.00	18	0.09
General Counsel	945	7.23	1,118	8.32	173	1.09
Executive Direction & Support	5,624	49.32	6,035	50.03	411	0.71
TOTAL	\$21,269	186.93	\$24,189	205.57	\$2,920	18.64

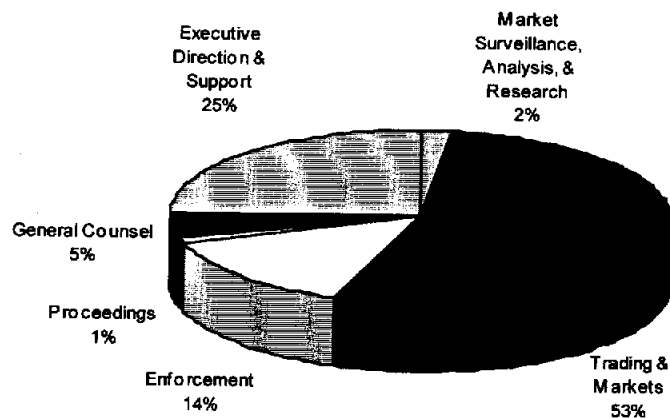


Figure 13: Goal Three – FY 2001 Budget Dollars by Program

Annual Performance Plan

Table 6: Goal Three – Summary of Request by Outcome Objective

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
GOAL THREE: Foster open, competitive, and financially sound markets.						
Outcome Objectives						
3.1 Ensure sound financial practices of clearing organizations and firms holding customer funds	\$ 3,379	28.85	\$ 3,978	32.95	\$ 599	4.10
3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.	\$ 10,462	93.20	\$ 11,038	95.20	576	2.00
3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.	\$ 3,842	33.51	\$ 4,677	39.13	835	5.62
3.4 Promote markets free of trade practice abuses.	\$ 3,586	31.36	\$ 4,496	38.29	910	6.93
TOTAL	\$ 21,269	186.92	\$ 24,189	205.57	\$ 2,920	18.65

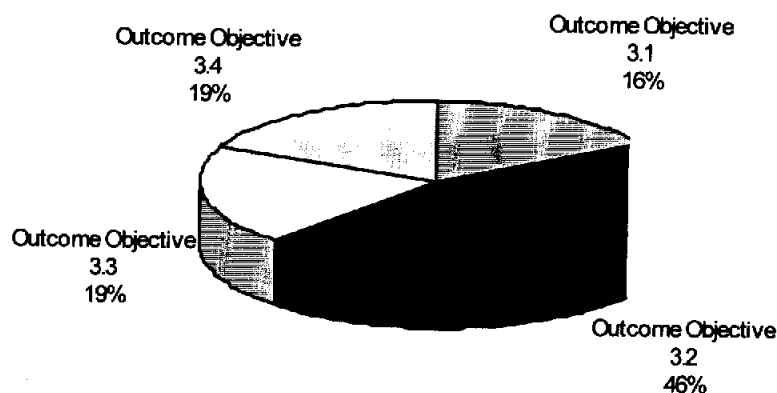


Figure 14: Goal Three – FY 2001 Budget Dollars by Outcome Objective

Ranking of Goal Three Activities

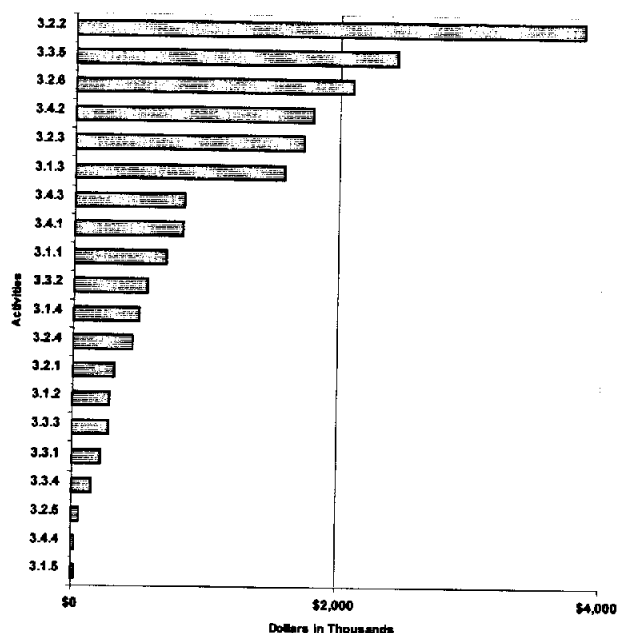


Figure 15: Ranking of Goal Three Activities

- **Activity 3.2.2:** Conduct rule enforcement reviews of self-regulatory organizations (financial practices, sales practices, trade practices and audit trail).
- **Activity 3.3.5:** Provide exemptive, interpretive, or other relief as appropriate to foster the development of innovative transactions, trading systems, and similar arrangements.
- **Activity 3.2.6:** Promulgate regulations to ensure effective self-regulation by exchanges, clearing organizations, and registered futures associations.
- **Activity 3.4.2:** Investigate possible trade practice violations.
- **Activity 3.2.3:** Review and oversee self-regulatory organization audit and financial practices.
- **Activity 3.1.3:** Identify and investigate possible financial, capitalization, segregation, and supervision violations for investigation and possible prosecution.
- **Activity 3.4.3:** Bring cases concerning trade practice violations.
- **Activity 3.4.1:** Identify possible trade practice violations for investigation and possible enforcement proceedings.
- **Activity 3.1.1:** Promulgate regulations to ensure sound business, financial, and sales practices in firms participating in the commodities industry.
- **Activity 3.3.2:** Coordinate and cooperate with global financial services regulators to develop appropriate global standards and arrangements in the commodities industry as markets emerge and evolve.
- **Activity 3.1.4:** Bring cases concerning financial, capitalization, segregation, and supervision violations.
- **Activity 3.2.4:** Review adequacy of self-regulatory organization disciplinary actions.
- **Activity 3.2.1:** Review and approve self-regulatory organization rules and rule amendments.
- **Activity 3.1.2:** Review and oversee self-regulatory organization audit and financial practices.
- **Activity 3.3.3:** Participate in the International Organization of Securities Commissions and represent the Commission at international meetings concerning commodity regulation.
- **Activity 3.3.1:** Coordinate and cooperate with global financial services regulators to share vital information concerning markets, intermediaries, and regulatory structure.
- **Activity 3.3.4:** Participate in the President's Working Group on financial Markets to ensure coordination of information and efforts among U.S. financial regulators.
- **Activity 3.2.5:** Conduct direct audits of clearing organizations and firms handling customer money to ensure compliance with capitalization and segregation rules.
- **Activity 3.4.4:** Bring enforcement proceedings against violators.
- **Activity 3.1.5:** Sanction violators.

Summary of Annual Performance Targets

Goal Three								
<i>Foster open, competitive, and financially sound markets.</i>								
Outcome Objective 3.1								
Ensure sound financial practices of clearing organizations and firms holding customer funds.								
Annual Performance Goal								
No loss of customer funds as a result of firms' failure to adhere to regulations. No customers prevented from transferring funds from failing firms to sound firms.								
Activity/Strategy	Output Measure 1/	FY99	FY00	FY01	Outcome Measure 1/	FY99	FY00	FY01
1. Promulgate regulations to ensure sound business, financial, and sales practices in firms participating in the commodities industry. (See ●, pp. 236, 247, 253)	Number of firms required to transfer customer accounts.	1	TBD	TBD	Percentage of customers funds lost.	TBD	TBD	TBD
	Amount of customer funds lost.	0	TBD	TBD				
2. Review and oversee self-regulatory organization audit and financial practices. (See ●, pp. 234, 253)	Number of oversight audits.	38	60	65	Percentage of financial reports requiring follow up investigations.	3%	4%	5%
	Number of financial investigative reviews.	0	10	10				
	Number of financial reports processed.	5,684	5,000	6,000				
	Number of financial reports resulting in follow-up investigation.	161	200	300				
3. Identify and investigate possible financial, capitalization, segregation, and supervision violations for investigation and possible prosecution.	Number of such investigations opened during the fiscal year.	16	15	17	Of all such investigations closed or resulting in actions during the fiscal year, percentage of such investigations closed or resulting in enforcement action within one year.	TBD	TBD	TBD
	Total number of such investigations closed or resulting in CFTC enforcement action during the fiscal year.	TBD	TBD	TBD				
	Number of such investigations closed or resulting in CFTC enforcement action within one year of the opening of the investigation.	7	7	9	Of all CFTC enforcement investigations pending at the close of the fiscal year, percentage of such investigations.	TBD	TBD	TBD
	Number of such investigations pending at the close of the fiscal year.	TBD	TBD	TBD				
4. Bring cases concerning financial, capitalization, segregation, and supervision violations.	Total number of such cases filed during the fiscal year.	11	10	12	Of all such cases filed during the fiscal year, percentage of such cases filed within one year of the opening of the relevant investigation.	100%	100%	100%
	Number of such cases filed within one year of the opening of the relevant investigation.	TBD	TBD	TBD				
	Number of such cases pending at the close of the fiscal year.	TBD	TBD	TBD	Of the total number of CFTC enforcement actions pending the close of the fiscal year, percentage of such cases.			
5. Sanction violators.	Amount of disgorgement and restitution ordered.	\$0.0	\$0.0	\$0.0				
	Amount of civil monetary penalties ordered.	\$6.4M	\$1.0M	\$1.0M	Percentage of civil monetary penalties collected. 2/	TBD	TBD	TBD
	Number of cease and desist orders.	8	8	9	Percentage of ordered disgorgement and restitution paid.	TBD	TBD	TBD
	Number of respondents/ defendants whose registrations were ordered restricted.	6	6	7	Percentage of investigations resulting in sanctions.	TBD	TBD	TBD
	Amount of civil monetary penalties collected.	TBD	TBD	TBD				
	Amount of disgorgement or restitution money paid.	TBD	TBD	TBD				

1/ Many new output and outcome measures were developed during the FY 2001 budget formulation process. As such, new measurement data must be formulated. In cases where measurement data is not yet available, the acronym TBD, which stands for "to be determined," has been used in one, two, or all three fiscal year columns.

2/ The discrepancy between the amount of civil penalties imposed and the amount collected is accounted for by the following factors: 1) penalties imposed on one year may not become due and payable until the next year; 2) a penalty may be stayed by appeal; 3) some penalties call for installment payments which may span more than one year; 4) delinquencies assessed in default proceedings against respondents who are no longer in business and who cannot be located or are incarcerated; 5) penalties have been referred to the Attorney General for collection; and 6) collection still in process internally.

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Outcome Objective 3.2 Promote and enhance effective self-regulation of the commodity futures and option markets.								
Annual Performance Goal No loss of customer funds resulting from failure of self-regulatory organizations to ensure compliance with its rules.								
Activity/Strategy	Output Measure 1/	FY99	FY00	FY01	Outcome Measure 1/	FY99	FY00	FY01
1. Review and approve self-regulatory organization rules and rule amendments. (See ●, pp. 236, 238, 240, 248, 254)	Number of SRO rule submissions reviewed.	259	440	440	Percentage of rule submissions completed within:			
	Number of SRO rule amendments reviewed.	894	680	680		10 days	82%	TBD
						45 days	14%	TBD
						75 days	1%	TBD
						180 days	3%	TBD
2. Conduct rule enforcement reviews of self-regulatory organizations (financial practices, sales practices, trade practices, and audit trail). (See ●, pp. 234, 236, 238, 253, 254)	Number of rule enforcement reviews conducted.	7	7	8	Percentage of planned rule enforcement reviews completed.	100%	TBD	TBD
	Number of rule enforcement recommendations for improvement made.	30	TBD	TBD	Percentage of recommendations adopted by SROs.	100%	TBD	TBD
3. Review and oversee self-regulatory organization audit and financial practices. (See ●, pp. 236, 238, 254)	Number of oversight audits.	38	60	65	Percentage of financial reports requiring follow up investigations.	3%	4%	5%
	Number of financial investigative reviews.	0	10	10				
	Number of financial reports processed.	5,684	5,000	6,000				
	Number of financial reports resulting in follow-up investigation.	161	200	300				
4. Review adequacy of self-regulatory organization disciplinary actions. (See ●, pp. 236, 238, 254)	Number of self-regulatory organization disciplinary actions reviewed.	483	620	620	Percentage of disciplinary action reports made in compliance with regulatory standards.	100%	TBD	TBD
					Percentage of disciplinary actions requiring follow-up review.	100%	TBD	TBD
5. Conduct direct audits of clearing organizations and firms handling customer money to ensure compliance with capitalization and segregation rules. (See ●, pp. 236, 238, 254)	Number of direct audits of clearing organizations and firms handling customer money.	25	26	30	Percentage of audited clearing organizations and firms in compliance with capitalization and segregation rules.	90%	TBD	TBD
	Number of audited clearing organizations in compliance with capitalization and segregation rules.	3	TBD	TBD				
6. Promulgate regulations to ensure effective self-regulation by exchanges, clearing organizations, and registered futures associations. (See ●, pp. 236, 238, 254)	Number of newly promulgated CFTC regulations requiring SRO implementation.	18	TBD	TBD	Percentage of SROs implementing new regulations.	100%	100%	100%

1/ Many new output and outcome measures were developed during the FY 2001 budget formulation process. As such, new measurement data must be formulated. In cases where measurement data is not yet available, the acronym TBD, which stands for "to be determined," has been used in one, two, or all three fiscal year columns.

Outcome Objective 3.3 Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.								
Annual Performance Goal All requests for information sharing under agreements honored, and new agreements pursued as warranted. All requests for relief responded to within Commission guidelines.								
Activity/Strategy	Output Measure 1/	FY99	FY00	FY01	Outcome Measure 1/	FY99	FY00	FY01
1. Coordinate and cooperate with global financial services regulators to share vital information concerning markets, intermediaries, and regulatory structure. (See ●, pp. 242, 248)	Number of requests from foreign authorities received.	167	160	160	Percentage of requests from foreign authorities honored.	100%	TBD	TBD
	Number of requests from foreign authorities honored by CFTC.	167	TBD	TBD				
	Number of requests made to foreign authorities.	187	110	110	Percentage of requests made to foreign authorities honored.	96%	TBD	TBD
	Number of CFTC requests honored by foreign authorities.	179	TBD	TBD				
	Average response time.	TBD	TBD	TBD				

Continued on next page.

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Outcome Objective 3.3 (continued) Facilitate the continued development of an effective, flexible regulatory environment responsive to evolving market conditions.								
Annual Performance Goal All requests for information sharing under agreements honored, and new agreements pursued as warranted. All requests for relief responded to within Commission guidelines.								
Activity/Strategy	Output Measure 1/	FY99	FY00	FY01	Outcome Measure 1/	FY99	FY00	FY01
2. Coordinate and cooperate with global financial services regulators to develop appropriate global standards and arrangements in the commodities industry as markets emerge and evolve.	Number of global standards, arrangements or initiatives developed.	0	TBD	TBD	Percentage of global standards, arrangements, initiatives adopted.	TBD	TBD	TBD
	Number of global standards, arrangements or initiatives adopted.	TBD	TBD	TBD				
3. Participate in the International Organization of Securities Commissions and represent the Commission at international meetings concerning commodity regulation.	Number of IOSCO and related international meetings held.	16	TBD	TBD	Percentage of IOSCO and related international meeting attended by CFTC.	100%	TBD	TBD
	Number of IOSCO and related international meetings attended by CFTC.	16	TBD	TBD				
4. Participate in the President's Working Group on Financial Markets to ensure coordination of information and efforts among US financial regulators. (See ●, pp. 234, 249)	Number of President's Working Group meetings held (includes Steering Committee meetings).	24	24	24	Percentage of President's Working Group meetings attended by CFTC.	100%	100%	100%
	Number of President's Working Group meetings attended (includes Steering Committee meetings).	24	24	24	Percentage of President's Working Group recommendations implemented.	TBD	TBD	TBD
					Percentage of assignments/tasks to CFTC completed.	100%	100%	100%
5. Provide exemptive, interpretive, or other relief as appropriate to foster the development of innovative transactions, trading systems, and similar arrangements. (See ●, pp. 242, 243)	Number of requests for exemptive, interpretive, or other relief.	310	330	350	Percentage of total requests receiving CFTC responses.	86%	90%	90%
	Number of CFTC responses to such requests.	266	297	315				
	Average response time.	7 wks	6 wks	6 wks				

1/ Many new output and outcome measures were developed during the FY 2001 budget formulation process. As such, new measurement data must be formulated. In cases where measurement data is not yet available, the acronym TBD, which stands for "to be determined," has been used in one, two, or all three fiscal year columns.

Outcome Objective 3.4 Promote markets free of trade practice abuses.								
Annual Performance Goal No trade practice abuses.								
Activity/Strategy	Output Measure 1/	FY99	FY00	FY01	Outcome Measure 1/	FY99	FY00	FY01
1. Identify possible trade practice violations for investigation and possible enforcement proceedings. (See ●, pp. 239, 243, 253, 255)	Number of trade practice investigations completed.	126	TBD	TBD	Percentage of total possible trade practice investigations identifying possible violations.	20%	TBD	TBD
	Number of possible trade practice violations referred to SROs and to Division of Enforcement for investigation.	19	21	26	Percentage of trade practice investigation referrals to Enforcement and SROs resulting in disciplinary action.	10%	TBD	TBD
2. Investigate possible trade practice violations. (See ●, pp. 239, 243, 253, 255)	Number of such investigations opened during the fiscal year.	12	10	13	Of all such investigations closed or resulting in enforcement action during the fiscal year, percentage of investigations closed or resulting in CFTC enforcement action within one year of opening.	TBD	TBD	TBD
	Total number of investigations closed or resulting in enforcement actions during the fiscal year.	7	6	7				
	Number of investigations closed or resulting in enforcement action within one year of opening such investigations.	TBD	TBD	TBD	Of all CFTC enforcement investigations pending at the close of the fiscal year, percentage of such investigations.	TBD	TBD	TBD
	Number of investigations pending at the close of the fiscal year.	TBD	TBD	TBD				

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Outcome Objective 3.4 (continued) Promote markets free of trade practice abuses.								
Annual Performance Goal No trade practice abuses.								
Activity/Strategy	Output Measure 1/	FY99	FY00	FY01	Outcome Measure 1/	FY99	FY00	FY01
3. Bring cases concerning trade practice violations. (See ●, pp. 239, 243, 253, 255)	Total number of such cases filed during the fiscal year.	1	1	2	Of the total number of such cases filed during the fiscal year, percentage of such cases filed within one year of the opening of the relevant investigation.	TBD	TBD	TBD
	Number of such cases filed within one year of the opening of the relevant investigation.	TBD	TBD	TBD				
	Number of such cases completed during the fiscal year.	2	2	2	Of all CFTC enforcement cases pending at the close of the fiscal year, percentage of such cases.	TBD	TBD	TBD
	Number of such cases pending at the close of the fiscal year.	10	9	9				
4. Sanction violators. (See ●, pp. 239, 243, 253, 255, 257)	Number of <i>ex parte</i> restraining orders granted.	0	0	0	Percentage of investigations resulting in sanctions.	TBD	TBD	TBD
	Number of preliminary injunctions obtained.	0	0	0				
	Number of permanent injunctions obtained.	0	0	0				
	Amount of restitution and disgorgement granted.	0	0	0				
	Amount of civil monetary penalties granted.	\$17.1M	\$525k	\$650k				
	Number of cease and desist orders obtained.	3	1	2				
	Number of requests for registration restrictions granted.	5	2	2				
	Number of requests for trading prohibitions granted.	7	2	2				

1/ Many new output and outcome measures were developed during the FY 2001 budget formulation process. As such, new measurement data must be formulated. In cases where measurement data is not yet available, the acronym TBD, which stands for "to be determined," has been used in one, two, or all three fiscal year columns.

Table 7: All Goals—Summary of Request by Program Activity

	FY 2000		FY 2001		CHANGE	
	\$ (000)	FTE	\$ (000)	FTE	\$ (000)	FTE
Market Surveillance, Analysis & Research	\$6,657	77.00	\$7,974	86.00	\$1,317	9.00
Trading & Markets	14,371	127.00	16,724	144.00	2,353	17.00
Enforcement	18,683	158.00	21,825	182.00	3,142	24.00
Proceedings	2,154	20.00	2,351	21.00	197	1.00
General Counsel	4,315	33.00	5,105	38.00	790	5.00
Executive Direction & Support	16,581	146.00	18,021	150.00	1,440	4.00
TOTAL:	\$62,761	561.00	\$72,000	621.00	\$9,239	60.00

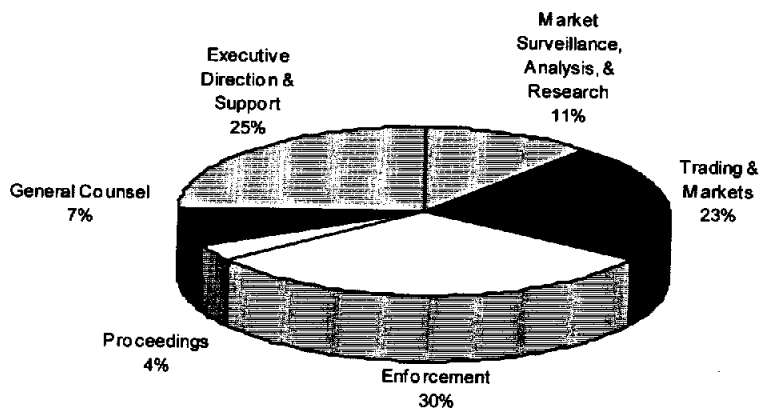


Figure 16: All Goals — FY 2001 Budget Dollars by Program